

## Message Text

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PAGE 01 LIMA 06288 152016Z  
ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
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OPIC-03 XMB-02 /102 W  
-----047938 161242Z /43

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FM AMEMBASSY LIMA  
TO SECSTATE WASHDC 969

C O N F I D E N T I A L LIMA 6288

E.O. 11652: GDS  
TAGS: EFIN, PE  
SUBJECT: GOP NEGOTIATIONS WITH THE IMF

REF: LIMA 5815

1. SUMMARY: GOP OFFICIALS ARE OPTIMISTIC THAT A NEW IMF STANDBY AGREE  
-  
MENT CAN BE CONCLUDED WITH THE FUND STAFF BY JULY 21 OR EARLY THE  
FOLLOWING WEEK. THE SPECIFICS OF SUCH AN AGREEMENT ARE STILL VAGUE.  
MEANWHILE THE DOLLAR CERTIFICATE RATE HAS DRIFTED DOWN TO ABOUT 185.  
END SUMMARY.

2. AFTER TEN DAYS OF TALKS GOP OFFICIALS ARE XPRESSING OPTIMISM ABOUT  
PROGRESS IN NEGOTIATIONS WITH THE IMF AND EXPECT TO COMPLETE A DRAFT  
AGREEMENT BY JULY 21 OR EARLY THE FOLLOWING WEEK. THEY STATE THAT  
AN AGREED BASIS FOR A NEW STANDBY EXISTS BUT ARE LESS CLEAR ABOUT THE  
SPECIFICS OF THE AGREEMENT. THE PROJECTED RATE OF INFLATION OF  
ABOUT 60 PERCENT THIS YAR WILL BE LOWER FOR 1979 (A CRUCIAL  
TARGET FOR ESTABLISHING CREDIT AND OTHER FINANCIAL LIMITS) BUT WE  
HAVE NO PRECISE FIGURE FOR 1979. WE HEAR TALK OF A BUDGET DEFICIT  
TARGET FOR 1979 IN THE RANGE OF 60-70 BILLION SOLES (NOT VERY  
DIFFERNENT FROM THE 45 BILLION DEFICIT TARGETTED FOR 1978 IN THE  
OLD AGREEMENT TAKING ACCOUNT OF INFLATION), BUT THIS IS APPARENTLY  
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PAGE 02 LIMA 06288 152016Z

NOT YET AGREED.  
THE GOP FIRMLY INTENDS TO MAINTAIN THE CURRENT EXCHANGE RATE  
REGIME OF A CRAWLING OFFICIAL RATE PLUS A FREE FLOATING DOLLAR  
CERTIFICATE MARKET (WHICH THEY VIEW AS A FORM OF FUTURES MARKET)  
AND IS CONFIDENT THE FUND WILL ACCEPT THIS.

3. ONE ISSUE THAT CURRENTLY DIVIDES THE CABINET IS INTEREST RATE

POLICY. FINANCE MINISTER SILVA RUETE AND CENTRAL BANK PRESIDENT MOREYRA BOTH SUPPORT A MAJOR INCREASE (PROBABLY FROM THE CURRENT 24 PERCENT TO 36 PERCENT) WHILE INDUSTRY MINISTER LANATA, WITH THE OUTSPOKEN SUPPORT OF PRIVATE BUSINESS, WANTS TO RETAIN THE CURRENT RATE. THE FUND IS UNDOUBTEDLY PRESSING FOR A RATE INCREASE TO ELIMINATE THE NEGATIVE RATE STRUCTURE THAT NOW EXISTS AND MOREYRA TOLD US CATEGORICALLY THAT INTEREST RATES WILL BE RAISED.

4. FUND DIRECTOR FOR LATIN AMERICAN ROBICHEK ARRIVED A COUPLE OF DAYS AGO AND NOW IS HEADING THE IMF TEAM.

5. IN RELATED DEVELOPMENTS, FERNANDO REUS, DIRECTOR OF PUBLIC CREDIT AT THE FINANCE MINISTRY WILL TRAVEL TO NEW YORK JULY 17 TO SIGN THE PRIVATE BANK PACKAGE EARLY NEXT WEEK. ON JULY 11, THE GOP ANNOUNCED A MODIFICATION OF THE DOLLAR CERTIFICATE MARKET TO PERMIT THE PURCHASE OF CERTIFICATES WITH TRAVELLERS CHECKS AND DOLLARS IN CASH (THE \$1,000 MINIMUM AMOUNT REMAIN IN EFFECT). THE CERTIFICATE RATE ITSELF HAS BEEN DRIFTING DOWN FROM THE 188-190 LEVEL LAST WEEK TO ABOUT 185 LATE THIS WEEK.  
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## Message Attributes

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